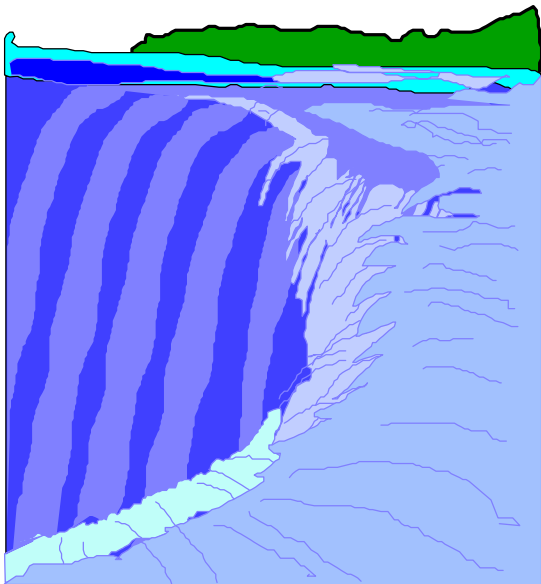


Annual Report To USEPA Region IX

Safe Drinking Water State
Revolving Fund

State Fiscal Year
1998-1999 (July-June)

State of California
Department of Health Services



**SAFE
DRINKING
WATER
STATE
REVOLVING
LOAN FUND**
January 2000

Table of Contents

I.	EXECUTIVE SUMMARY.....	1
II.	INTRODUCTION.....	6
III.	GOALS AND ACCOMPLISHMENTS.....	7
	A. Progress Toward Long-Term Goals.....	7
	B. Progress Toward Short-Term Goals.....	8
IV.	SDWSRF LOAN AND SET-ASIDE ACTIVITIES.....	10
	A. Sources of SDWSRF Funding	
	Capitalization Grants.....	10
	State Match.....	10
	Interest Earnings.....	10
	Repayments.....	13
	B. Uses of SDWSRF Funds.....	13
	Loan Assistance Status.....	13
	Binding Commitments.....	13
	Project Bypass.....	13
	Small Systems.....	13
	Disadvantaged Community Systems.....	13
	Disbursements.....	15
	Set-Aside Activity Status.....	15
	Administration.....	15
	Capacity Development.....	24
	Small Systems Technical Assistance.....	27
	Source Water Delineation and Assessment.....	29
V.	FINANCIAL SUMMARY.....	34
	A. Status of Loans.....	34
	B. Loan Disbursements/Cash Draw Proportionality.....	34
	C. Set-Aside Disbursements.....	34
	D. Annual Repayment/Aging of Accounts.....	34
	E. Loan Portfolio Analysis.....	34
	F. Investments.....	35
	G. Financial Statements.....	35
VI.	COMPLIANCE WITH OPERATING AGREEMENT & GRANT CONDITIONS.....	36

APPENDIX A: PROJECT INFORMATION/LOAN STATUS

APPENDIX B: ACCOUNTING AND MANAGEMENT REPORTS

APPENDIX C: REPORT ON PAYMENTS, BINDING COMMITMENTS, AND CASH
DRAWS

APPENDIX D: AUDIT REPORTS (INCLUDING FINANCIAL STATEMENTS)

APPENDIX E: ANNUAL REPORTS ON CREDIT CONDITIONS OF BORROWERS

APPENDIX F: PUBLIC WATER SYSTEMS BYPASSED

TABLES

TABLE 1	Sources and uses of Committed SDWSRF Funding.....	11
TABLE 2	Uses of Disbursed SDWSRF Funding.....	12
TABLE 3	Reconciliation of USEPA Budget Authority vs. State Budget Act.....	12
TABLE 4	Funded Projects.....	14

I. EXECUTIVE SUMMARY

This is the inaugural report for California's Safe Drinking Water State Revolving Fund (SDWSRF) Program. This report will be provided annually to the United States Environmental Protection Agency (USEPA) pursuant to the requirement of the Assistance Agreement. The California state agency responsible for administering this award is the California Department of Health Services (DHS). The SDWSRF Program resides in the Division of Drinking Water & Environmental Management. The Annual Report to USEPA follows the State of California's fiscal year reporting cycle of July 1, 1998 through June 30, 1999.

As of June 30, 1999 DHS had executed its first State SDWSRF Assistance Agreement with the USEPA. This Agreement was executed on September 29, 1998 for the 1997 federal fiscal year appropriation to California of \$75,682,600. The required California State match of \$15,136,520 (20%) was authorized by the Legislature in September of 1998 and deposited into the fund by the State Controller's Office on June 11, 1999, bringing the total budget for the SDWSRF to \$90,819,120. The California State Legislature, however, modified this budget authority amount by \$3,990,120, reducing the appropriation authority for State Fiscal Year (SFY) 1998/99 to \$86,829,000. The reason for the reduction is due to California electing to spread the set-aside component Drinking Water Source Assessment and Protection (DWSAP) Program over a multi-year period. The \$3,990,120 will be available for state appropriation and expenditure over the next several years as identified in workplans to USEPA Region IX. DHS had to separately identify \$302,730 of state overmatch money from the Public Water Supply Supervision Assistance Agreement (1:1 match) from 1994 in order to budget the set-aside component capacity development for \$302,730.

Since the program has just completed its implementation phase of the operations, the 1997 federal capitalization grant and the 20% state match have been DHS' only sources of funding. In the future, loan repayments will add to the available funding.

Actual expenditures totaled \$791,562 for the reporting period. The SDWSRF Program was actively staffing-up in its first year of operations. No State Revolving Fund loans could be executed until approval was received for the 20% state match. Approval did not come until late in the State Fiscal Year.

The SDWSRF program is authorized for a total of 63 positions. As of June 30, 1999, 27 positions were filled. Final staffing is anticipated during the next fiscal year. During the interim, engineering reports and technical reviews will be conducted by experienced staff located in the Drinking Water Program's field offices.

☐ Loan Program

The SDWSRF loan account was budgeted for \$78,407,174 from the USEPA and modified to \$78,422,000 under the State Budget Act. This is comprised of the state 20% match component of \$15,136,520 and that portion of the federal assistance agreement not used for set-asides, which amounts to \$63,270,654. No loan commitments were made as of June 30, 1999 due to the

program being in the implementation phase of operations. The 20% state match was authorized by the Legislature in September of 1998 but was not deposited by the State Controller's Office into the fund until June 1999. The SDWSRF Program had until September 30, 1999 to enter into binding commitments for the 1997 loan corpus amount of \$78,422,000.

Long-term construction loans comprise the majority of the project financing to be made available and may include planning, design, acquisition, and construction costs. In addition, the following terms and conditions will apply:

- The maximum length of the loan will be 20 years or the useful life of the project, whichever is shorter, unless an applicant is determined to be a disadvantaged community. If the latter is applicable, an extension may be allowed up to 30 years.
- The applicable interest rate will be 50% of the average interest rate paid by the state on general obligation bonds issued in the prior calendar year. Disadvantaged communities have a zero interest rate.
- The maximum amount of loan financing to be awarded to a single project during any one fiscal year will be \$20,000,000. DHS may increase this amount during September of each year (the last month to make loan commitments), if it determines that excess funds are available due to by-passes or other issues.
- All interest rates will be a fixed term for the life of the loan. No variable rates and no balloon payments will be allowed.
- In addition to the maximum loan amount per project described above, no public water system (PWS) with multiple projects shall receive a total amount of loans in excess of \$30,000,000 in any one fiscal year.

In a few cases, some water systems may not be able to fund the preliminary planning needed to proceed with a full design and construction loan application. In such cases, an applicant may apply for a short-term planning loan. Unlike staged projects, funds from future years will not be reserved for projects receiving a short-term planning loan. The maximum loan amount for any single project shall not exceed \$100,000 with a maximum loan period of five years. The loan repayments may be combined with a long-term construction loan should one be subsequently awarded.

☐ Set-Asides

The Assistance Agreement provides for several set-asides which are to be funded out of the federal capitalization grant. California was approved to use the 1997 allocation in the following manner:

Administration - To administer the SDWSRF Program, California earmarked the maximum 4% set-aside allowed under the award, which totals \$3,027,304 ($\$75,682,600 \times 4\%$). This amount was rounded to \$3,027,000 in the State Budget Act. A total of 33 administrative positions were authorized but only 21 were filled by June 30, 1999. Full staffing is anticipated during the next budget period. Actual expenses totaled \$481,406.

Capacity Development – This set-aside element was budgeted at 0.4% of the federal allocation for program management and totals \$302,730 ($0.4\% \times \$75,682,600$). This amount was rounded to \$304,000 in the State Budget Act. Total expenditures through the end of June 30, 1999 were \$4,157. Authorized positions for this set-aside are 3. None has been filled as of June 30, 1999.

Funds from this set-aside are used to (1) continue the development of a capacity development strategy, (2) develop policies and procedures for implementing capacity requirements, and (3) continue to develop a capacity development data base system.

DHS is in the process of developing a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. This strategy is in draft form at this time. In developing the strategy, DHS will (1) define program goals and objectives, (2) define a set of steps to be taken to achieve each objective, (3) define an overall program implementation plan, and (4) define a program evaluation and improvement plan which will, as a minimum, describe how the state will establish a baseline and measure improvement in capacity. Throughout this development process DHS will continue to solicit input from the State's technical advisory committee and other interested stakeholders.

DHS has developed a set of performance criteria needed to determine whether a system has adequate TMF capacity. DHS intends to further revise the criteria based on input received from actual field use. DHS is in the process of developing policies and procedures for implementing capacity requirements. DHS has developed preliminary TMF capacity self-assessment forms and staff evaluation forms to be used to assess and document a water system's TMF capacity. Preliminary field testing of the forms and procedures has been conducted and documents have been revised.

DHS is revising the Permit Policy and Procedure Manual so that it will contain all policies and procedures needed by staff in implementing capacity development requirements. All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised and implemented by October 1, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs in California.

DHS is in the process of modifying the database to more effectively track TMF capacity. This data base will enable the State to (1) track information on the TMF capacity status of PWSs, (2) identify and track areas where water systems need to develop capacity, and (3) identify and track areas where water systems need technical assistance. DHS intends to develop the initial data base program and conduct field tests to determine needed data base revisions.

Small Water System Technical Assistance – The majority of California’s 8,500 PWSs fall into this category and DHS is utilizing the entire portion of the Capitalization Grant allowed for this activity. The funds will be used to provide additional in-house technical staff and to contract with local primacy agencies and outside contractors to provide technical services to small systems. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the systems; and (4) establishing or improving the financial, technical, and managerial capability of the systems.

California chose to fund the Small Water System Technical Assistance set-aside element at 2% of the federal allocation, which totals \$1,513,652. This amount was rounded to \$1,514,000 in the State Budget Act. This set-aside is authorized for a total of 13 positions. As of June 30, 1999, 4 of the positions were filled. Actual expenditures for the reporting period totaled \$68,245. The remaining balance will be rolled into the loan corpus.

Source Water Assessment Program – The funding for this program is being used to develop a SWAP program to (1) delineate the boundaries of protection areas for drinking water sources, and (2) identify possible contaminating activities within the delineated areas in order to assess the vulnerability of the water source to contamination. In California, the SWAP is incorporated into the DWSAP Program. DHS submitted the final DWSAP Program to USEPA on January 19, 1999, following a 17-month process in which DHS had collected existing information, consulted with the stakeholder committees, and sought public review and comments. The document outlined a plan to accomplish the assessment of PWS source waters and included a schedule and priorities for delineations and assessments. Twenty-five assessments were completed in the first year.

USEPA endorsed DHS’ DWSAP Program on April 26, 1999 and final approval was given on November 5, 1999.

Contracts began in June with 34 county environmental health agencies [local primacy agencies (LPAs)] for complete drinking water source assessments for all active public drinking water sources used by PWSs under the regulatory jurisdiction of the LPA. The contracts run from 6/1/99 through 12/31/02 and total \$1,953,900. Future contracts with the LPAs are anticipated next fiscal year to provide assistance to water systems seeking participation in the SRF Program. Future contracts will provide support to small water systems seeking participation in the SRF Program.

As part of the overall SWAP strategy, low interest source water protection loans will be offered to PWSs beginning in SFY 2000/01 for source water protection. The amount budgeted for the first year will be \$4,000,000 and will be treated as a subaccount within the SDWSRF loan fund.

The one-time SWAP set-aside element was budgeted at 10% of the 1997 federal allocation, to be expended over 3 years, and totals \$7,568,260 (10% of \$75,682,600). The State Budget Act authorized \$3,562,000 in year 1 (1998/99). Authorized positions for this set-aside (which include administration and local assistance) are 14. As of June 30, 1999, this set-aside paid for

the salaries and associated expenses of 2 FTE Positions. The appropriation authority for the 1998/1999 reporting period was for \$3,562,000 but total expenditures for the first year only amounted to \$237,754. The unspent balance will be rolled forward to the next year.

II. INTRODUCTION

DHS is pleased to submit the Annual Report on the SDWSRF Program for SFY 1998/99. The Report addresses operation of the SDWSRF during the time period from July 1, 1998 through June 30, 1999. During that time period California received a capitalization grant award for the federal 1997 allotment from USEPA for \$75,682,600.

DHS provides this comprehensive report to the USEPA Regional Office and to the public to detail the activities undertaken to reach the goals and objectives set forth in the Intended Use Plan (IUP) developed for SFY 1998/99. The report documents the status of the program by describing the progress made toward long and short-term program goals, the sources (e.g., federal grants and state match) and uses of all funds, financial status of the SDWSRF, and compliance with federal Drinking Water State Revolving Fund requirements.

DHS presents the Annual Report in six major sections. Section I is an Executive Summary. Section II of the report provides an Introduction. Section III provides a summary of progress made toward reaching long and short-term goals. Section IV reports details on loan and set-aside activities. Section V provides an overview of financial conditions of the program. Section VI reports on DHS' compliance with provisions of the federal capitalization grant agreement and the operating agreement.

STATE OF CALIFORNIA SDWSRF – OVERVIEW State Fiscal Year 1998/1999 (July 1- June 30)

Total Available Investment: \$78,422,000

Number of Projects (Closed Loans): 0

Project Funding (Closed Loans): \$0

Total Population Served: 0

Average Interest Rate: Not Applicable

Average Repayment Period: Not Applicable

Small Systems Funded: 0

Disadvantaged Community Loan Funding: 0

Set-Aside Assistance: \$8,407,000

III. GOALS AND ACCOMPLISHMENTS

DHS developed the goals below for the SFY 1998/99 IUP . The long-term goals provide a framework that guides DHS' management decisions for the SDWSRF program. The short-term goals support the implementation of the Program's long term goals.

A. Progress toward Long-Term Goals

1. *Provide an adequate supply of safe clean drinking water.*

Progress Toward Goal 1: The SDWSRF Program is laying the foundation for future improvements in California's safe drinking water supply. The Program's first year of operation consisted mainly of program implementation. Beginning in SFY 1999/00, loans will be executed against the 1997-year federal grant money. Set-asides are used to fund Administration, Source Water Assessment and Protection, Capacity Development and Small Water System Technical Assistance.

2. *Continue funding projects on the multi-year Project Priority List (PPL).*

Progress Toward Goal 2: A PPL was established in 1998 that was comprised of approximately 3,400 projects from approximately 1,300 PWSs. This PPL is updated each year. The SDWSRF Program commenced loan commitments in September 1999.

3. *Ensure the revolving nature of the SDWSRF loan fund.*

Progress Toward Goal 3: No loans were executed during the first year of operation because the Program was in its start-up phase. Loans are tracked with an automated information management system to ensure that loan repayments are tracked and accounted for in order to maintain self-sufficiency of the fund once the federal Capitalization Grants cease.

4. *Ensure that all PWSs achieve and maintain compliance with the SDWA.*

Progress Toward Goal 4: A fundamental goal of DHS is to ensure safe and reliable drinking water for all Californians. In furtherance of this goal, the ability to use the resources of the SDWSRF loan fund and set-aside programs enhances DHS' attempts to ensure that all PWSs have the technical, managerial and financial capacity to operate in compliance with the SDWA.

5. *Reduce the cost of drinking water.*

Progress Toward Goal 5: The loan resources of the SDWSRF Loan Program will assist in minimizing the per-household cost of protecting public health and delivering safe drinking water by providing subsidized financing for the construction of technically sound drinking water infrastructure and by developing PWS monitoring plans based on the conditions surrounding the source water. It will also provide support and encourage managerial and technical competency of water systems to foster effective and efficient system operation.

B. Progress Toward Short-Term Goals

1. *Develop an efficient and effective Safe Drinking Water SRF Program for the State of California.*

Progress Toward Goal 1: DHS developed the SDWSRF Program based on its own experience in regulating PWSs, on the knowledge and experience of the drinking water industry and based on considerable public input. Public meetings were noticed and held at multiple locations throughout the state. The purpose of these meetings was to obtain public comment and gain support for the SDWSRF Program. DHS established task forces and committees of interested agencies and stakeholders to provide direction regarding program development. DHS also meets regularly with the USEPA Region IX staff to discuss its SDWSRF Program development activities.

2. *Implement the SDWSRF Program.*

Progress Toward Goal 2: The first step in the process of implementing the SDWSRF Program was the passage of enabling legislation and adoption of regulations. This was accomplished with the passage of Senate Bill 1307 (Chapter 734 – Statutes of 1997) signed by the Governor on October 6, 1997. Regulations were adopted as emergency regulations on March 23, 1999 and became final on August 18, 1999. The second step was DHS' application and USEPA approval for 1997 Federal Capitalization Grant money in September 1998. The third and final step was obtaining the 20 percent state match, which was provided in September 1998.

3. *Develop and adopt a PPL and an IUP.*

Progress Toward Goal 3: DHS notified every eligible PWS in the state of the proposed SDWSRF loan program and invited pre-applications for eligible projects. Four public workshops were held to discuss the pre-application process. The staff in DHS' district offices evaluated each preapplication and placed it in the appropriate health risk category in November 1997. Bonus points were assigned based on the criteria developed by DHS. Regional Engineers and other departmental staff reviewed the PPL before its publication to ensure that the rating of the projects was consistent. The ranked listing of pre-applications received was then compiled into the PPL for the federal funding grant year 1997. The IUP and PPL were noticed to the public and comments were accepted in writing and through ten public hearings conducted throughout the state in January 1998.

4. *Determine the fundable portion of the PPL and invite eligible water systems to apply for funding.*

Progress Toward Goal 4: Although the state match of 20% was provided in September of 1998, internal procedures to establish and fund the SDWSRF accounts was not completed by the State Controller's Office until it transferred the money on June 11, 1999. An important goal of the SDWSRF Program is to fund those projects that are in high priority categories. DHS has determined that categories A through G are high priority categories. These categories contain

projects to mitigate a current risk to public health or to correct a violation of the Safe Drinking Water Act (SDWA). DHS began funding projects in September of 1999.

5. *Develop and implement the set-aside programs.*

Progress Toward Goal 5: DHS utilized portions of the Capitalization Grant to fund small water system technical assistance, capacity development and source water assessment and delineation programs. For Federal Allocation Year 1997, \$1,514,000 was budgeted for small water system technical assistance, \$304,000 was for Capacity Development, and \$3,562,000 for Source Water Assessment and Delineation Program. In addition, DHS budgeted \$3,027,304 for administration of the SDWSRF Program. To implement these programs, DHS entered into Interagency Agreements and third party contracts as needed to make maximum use of resources.

6. *Assess and evaluate the need to leverage the SDWSRF.*

Progress Toward Goal 6: Pre-applications received from PWSs indicated a need to consider increasing the available loan fund through leveraging all or part of the Capitalization Grant. DHS determined that leveraging was not a practical approach for the SDWSRF program at this time. Leveraging would increase the number of loans DHS could make available but DHS and the Department of Water Resources would have to increase and train staff to process the loans. Upon completion of these early loans, the increased staff would have to be reassigned or discharged. In addition, it has not been demonstrated that the immediate demand for the funds would warrant leveraging, an in actuality the SDWSRF has experienced a by-pass rate of approximately 65% from the systems invited to complete a full application.

IV. SDWSRF LOAN AND SET-ASIDE ACTIVITIES

This section provides a detailed discussion of the SDWSRF assistance activities during SFY 1998/99. Details are provided on the sources of funding in DHS' program, the status of loan activities, and the status of set-aside activities.

Tables 1 and 2 provide information about the sources and uses of SDWSRF funding. Table 1 displays all sources of SDWSRF funds available in SFY 1998/99. It also shows the binding commitments, workplan commitments, and administrative funding commitments made for the year. Table 2 shows DHS' actual disbursements in SFY 1998/99.

Table 3 is reconciliation between USEPA budget authority versus authority granted by the California State Legislature in the Budget Act. Each variance is explained.

A. Sources of SDWSRF Funding

The total funding available for the SDWSRF program in this reporting period totals \$90,819,120. This is comprised of \$75,682,600 from the 1997 capitalization grant and another \$15,136,520 representing the 20% state match. DHS had to separately identify \$302,730 of state overmatch money from the Public Water Supply Supervision Assistance Agreement (1:1 match) from 1994 in order to budget the capacity development set-aside component for \$302,730.

Since the program has just completed its start-up phase of operations, the 1997 federal capitalization grant and the 20% state match have been DHS' only sources of funding. In the future, loan repayments will add to the available funding. DHS describes major aspects of the sources below.

☐ Capitalization Grants

USEPA has awarded the State of California a federal capitalization grant of \$75,682,600 from the federal 1997 grant allocation. In September of 1998 DHS was awarded this first capitalization grant.

☐ State Match

The State of California provided \$15,136,520 as the required 20% state match for the federal FY 1997 capitalization grant. This money became available from the Legislature in September of 1998 but was not transferred into the fund by the State Controller's office until June 11, 1999. The match came from a General Fund appropriation.

☐ Interest Earnings

The State of California prohibits investment earnings for its Surplus Money Investment Fund (SMIF) on General Fund (GF) money. The state match of 20% under this Assistance Agreement comes from GF money, and therefore does not earn interest for the SDWSRF fund.

TABLE 1: SOURCES AND USES OF COMMITTED SDWSRF FUNDING AS OF 6/30/99				
SOURCES OF FUNDS	*1998/99	**1999/00	***2000/01	Cumulative
Capitalization Grant	75,682,600	77,108,200	0	152,790,800
State Match	15,136,520	15,421,640	0	30,558,160
Additional State Contributions	0	0	0	0
Investment Interest Earnings	0	0	0	0
Principal Repayments	0	0	0	0
Investment Earnings on Loans	0	0	0	0
Bond Proceeds	0	0	0	0
State of California Budget Act Adjustment (SWAP)****	-3,990,120	2,647,160	0	-1,342,960
TOTAL CALIFORNIA APPROPRIATION AUTHORITY	86,829,000	95,177,000	0	182,006,000
USES OF COMMITTED FUNDS				
SDWSRF LOAN ACCOUNT BINDING COMMITMENTS (F629)				
Standard Loans 1452(a)	0	0	0	0
Disadvantaged Communities 1452(d)	0	0	0	0
Standard Loans Subtotal:	0	0	0	0
Small Systems 1452(a)(2)	0	0	0	0
Standard	0	0	0	0
Disadvantaged Communities 1452(d)	0	0	0	0
Small Systems Subtotal:	0	0	0	0
Source Water Protection	0	0	0	0
Committed Loan Subtotal:	0	0	0	0
Unclosed Loans				
Subtotal:	0	0	0	0
SET-ASIDE ACCOUNT WORKPLAN COMMITMENTS				
Technical Assistance (max. 2%) 1452(g)(2) (F628)	0	0	0	0
State Program Management(max. 10% 1452(g)(2)				
Capacity Development (Wtr Sys Reliability Acct F626)	0	0	0	0
Local Assistance Other State Programs (max. 15%) 1452(k)				
Source Water Delineation and Assessment (F627)	6,600	0	0	6,600
Subtotal:	6,600	0	0	6,600
SDWSRF ADMINISTRATION ACCOUNT COMMITMENTS				
4% Set-Aside 1452(g)(2) (F625)	200,000	0	0	200,000
Subtotal:	200,000	0	0	200,000
TOTAL	206,600	0	0	206,600

* FFY 97 ALLOCATION

** FFY 98 ALLOCATION

*** FFY 99 ALLOCATION

**** Although total appropriation authority from USEPA and the state match total \$90,819,120 for the 1997 Federal Assistance Award, the California State Legislature only provided appropriation authority in the amount of \$86,829,000 for SFY 1998/99, due to the multi-year spending plan for source water assessment and delineation. Expenditure authority for \$3,990,120 is scheduled for future years. See Table 3 for details of the variance.

TABLE 2: USES OF DISBURSED SDWSRF FUNDING AS OF 6/30/99				
USES OF DISBURSED FUNDS	SFY 1998	SFY 1999	SFY 2000	Cumulative
SDWSRF LOAN ACCOUNT (F629)				
Standard Loans 1452(a)	0.00	0.00	0.00	0.00
Disadvantaged Communities 1452(d)	0.00	0.00	0.00	0.00
Standard Loans Subtotal:	0.00	0.00	0.00	0.00
Small Systems 1452(a)(2)	0.00	0.00	0.00	0.00
Standard	0.00	0.00	0.00	0.00
Disadvantaged Communities 1452(d)	0.00	0.00	0.00	0.00
Small Systems Subtotal:	0.00	0.00	0.00	0.00
Source Water Protection	0.00	0.00	0.00	0.00
Subtotal:	0.00	0.00	0.00	0.00
SET-ASIDE ACCOUNT				
Technical Assistance (max. 2%) 1452(g)(2) (F628)	68,244.92	0.00	0.00	68,244.92
State Program Management (max. 10%) 1452(g)(2)				
Capacity Development (Wtr Sys Reliability Acct F626)	4,157.00	0.00	0.00	4,157.00
Local Assistance Other State Programs (max. 15%) 1452(k)				
Source Water Delineation and Assessment (F627)	237,754.27	0.00	0.00	237,754.27
Subtotal	310,156.19	0.00	0.00	310,156.19
SDWSRF ADMINISTRATION ACCOUNT				
4% Set-Aside 1452(g)(2) (F625)	481,405.92	0.00	0.00	481,405.92
Subtotal:	481,405.92	0.00	0.00	481,405.92
TOTAL	791,562.11	0.00	0.00	791,562.11

Table 3: Reconciliation of EPA Authority versus State Budget Act Authority					
Description	EPA Authority		Budget Act		Variance
			Authority		
Administration*	3,027,304		3,027,000		-304
Capacity Development*	302,730		304,000		1,270
SWAP**	7,568,260		3,562,000		-4,006,260
Small System TA*	1,513,652		1,514,000		348
SRF Loan Fund*	78,407,174		78,422,000		14,826
Total Authority***	90,819,120		86,829,000		-3,990,120

* Due to California Budget Act Authority rounding.

** The State of California elected to spend this one-time set-aside over a 3 year period. Year 1 spending (SFY 1998/99) was budgeted for \$3,562,000. This is consistent with the SWAP workplan approved by USEPA.

*** State of California Budget Act limits spending for SFY 1998/99 to \$86,829,000, due to the multi-year workplan and budget for SWAP.

☐ Repayments

No projects were funded during SFY 1998/99. Funding on PWS infrastructure projects began in early SFY 1999/00 and repayments begin later in that fiscal year. Future Annual Reports will describe the amount and use of repayments for new loans. The loan corpus amount available for fund obligations as of June 30, 1999 was \$78,422,000.

B. Uses of SDWSRF Funds

During SFY 1998/99, the SDWSRF Program budgeted \$78,422,000 for infrastructure improvement loans to PWSs. The program also budgeted \$5,380,000 in set-aside assistance for Small Water System Technical Assistance, Capacity Development, and the Source Water Assessment Program. In addition, the SDWSRF Program set-aside \$3,027,000 in funding for program administration.

Loan Assistance Status

The SDWSRF entered into no loan agreements prior to June 30, 1999, as the Program was in the final stages of its start-up operations due to the delay in obtaining the state match. Therefore, no loan commitments were made until SFY 1999/00.

☐ Binding Commitments

No binding commitments were made for SFY 1998/99 to fund projects. See table 4 for reporting format for future reporting periods.

☐ Project Bypass

Although no projects were funded in SFY 1998/99, there were some PWS projects that were bypassed due to either applicant request or non-submittal of required documents. See Appendix F for a report on PWS projects that were bypassed.

☐ Small Systems

The IUP indicated that 15% of the loan fund of \$78,422,000 was to be committed to small water systems for SFY 1998/99. This would have amounted to \$11,763,300. The program was not fully operational as of June 30, 1999. Therefore, as described above, no loans were committed.

☐ Disadvantaged Community Systems

The IUP for SFY 1998/99 did not project whether any loans to disadvantaged communities would be made. In accordance with Health & Safety Section 117671.65(b) of the California Health and Safety Code, all loans to disadvantaged communities will carry an interest rate of zero percent.

FUNDED PROJECTS (Closed Loans)* 1997 Capitalization Grant
As of June 30, 1999

Table 4

[illegible]

* No loans were closed as of June 30, 1999

☐ Disbursements

No loan related disbursements were made as of June 30, 1999.

Set-Aside Activity Status

The following pages provide an overview of DHS' set-aside activities for the year ending June 30, 1999. Appendix B includes management reports from Accounting detailing expenditures for the set-asides.

A. Set-Aside: Administration

DHS set aside the entire 4 percent of the capitalization grant allowed for the administration costs of this complex program. Excess funds available at the end of the SFY 1998/99 will be banked for use in future years to ensure the availability of sufficient funds to administer the program in perpetuity.

The majority of funds from this set-aside paid salaries and associated expenses of personnel administering the SDWSRF program. The state is not currently charging fees to supplement available set-aside funds. Expenditures for the Administration set-aside account (Fund 0625) totaled \$481,406. In addition, several contracts were entered into during the reporting period. A contract was let for \$500,000 with the Department of Water Resources to assist DHS in managing the financial aspects of executing SDWSRF loans. At the end of June 1999, \$300,000 of this amount was disencumbered due to the inability to spend the entire encumbrance, leaving a balance of \$200,000.

For the first year of the program, the State of California completed the following administrative activities:

☐ Hiring/training of new staff

A total of 33 administrative positions were authorized as of June 30, 1999. Of this total, only 21 were filled. Eighteen positions were full time, one was .75 time, and two were half time. The appropriation authority was \$3,027,000 but actual expenditures totaled \$481,406. The remaining balance will remain in this set-aside for future uses. A total of eighteen (18) training classes were taken by staff for software application and environmental compliance. These classes included Microsoft Access, Excel, Outlook, Word and Visual Basic. Other classes taken were for service contract bids and California Environmental Quality Act (CEQA) compliance.

☐ Purchase of computer hardware and software

Eight Purchase orders totaling \$395,232 were let to procure Personal Computers for 20 work stations, servers and associated software during the year. Another purchase order was let for \$26,880 for professional computer consulting services needed to design and build a database

program for the SDWSRF. This database is referred to as the Management and Reporting System (MARS).

☐ Development of program documents

Extensive program documents were developed for all set-aside programs. Many of these documents can be found and are available for downloading at the SDWSRF website address located at <http://www.dhs.cahwnet.gov/ps/ddwem/SRF/SRFindex.htm>. Documents specific to administration include:

- Policy & Procedures Manual
- Project Priority List
- Intended Use Plan
- Pre-application Package
- Full Application Package.

☐ Development of program procedures

1. Administration Unit – The procedures to be followed by the SDWSRF staff in the processing of applications are contained in the first and second versions of the Policy and Procedures Manual.
2. Technical Support Unit – Procedures were developed to comply with the federal requirements contained in the federal Assistance Agreement for Minority and Women's Business Enterprises (MBE/WBE).

A computer based information management system for the SDWSRF program was established to provide automated management of the priority list, and allow tracking of projects through the funding and construction process. The system is used to monitor pace of obligation of funds subject to federal cross cutters, funds provided to small and disadvantaged communities, and related data.

3. Environmental Review Unit – Procedures that were developed include the following:
 - a. State Clearinghouse Review: A record of all State Clearing House (SCH) documents assigned to DHS staff is recorded in the Environmental Database. SCH documents received for SDWSRF projects will also be recorded in the table.
 - b. Clearance for Application Acceptance: This is a critical step that allows DHS to proceed with issuing a Notice of Application Acceptance, thus encumbering funds for the proposed project. Only one of the following is required for acceptance:

- Schedule of Compliance: To be filled out by the applicant/lead agency and normally submitted by the District. The Environmental Database automatically tracks the dates in the schedule.
 - Environmental Information Form: Normally completed by the applicant and submitted by the District when DHS is the Lead Agency.
 - Completed Documentation: (see 3 below)
- c. Documentation Clearance: This serves to notify the District of what information is needed, or that documentation is complete. This is provided to the District whenever environmental information other than a Schedule of Compliance is transmitted to the Environmental Review Unit (ERU). The checklist reflects documentation recorded in the database.
- d. Federal Coordination and Consultation: This is required to comply with the USEPA Operating Agreement for equivalency projects. This review should be coordinated with CEQA review as much as possible. Review period is 30 days plus 6 mailing days for Negative Declarations and 45 days plus 6 mailing days for EIRs. Specific information needs to be included for the Federal Endangered Species Act and State Implementation Plan.
- e. Cultural Resources Clearance: This is required to comply with the USEPA Operating Agreement for equivalency projects. State Historic Preservation Officer review period is 30 days plus 3 mailing days. The following types of information are needed:
- Delineation of the Area of Potential Effect
 - Records Search
 - Field Survey Reports
 - Native American Consultation
 - Consultation with other interested parties
- f. Review for Environmental Consideration: This is normally required before the project can begin construction. It should always precede the environmental approval for contract. It involves one of the following reports:
- Summary of Environmental Consideration: The summary needs to be signed by Unit staff and the District Engineer.
 - Environmental Review for Categorical Exemption: The summary needs to be signed by Unit staff and the District Engineer.
- g. Findings for Contract Approval: This is a critical step that allows DHS to proceed with issuing a contract and disbursing loan money.
- Notice of Findings and Approval
 - i. Incorporate CEQA mitigation measures by reference
 - ii. Incorporate standard cultural resources terms
 - iii. Add Special conditions for agreed upon mitigation
 - Notice of Determination or Exemption

4. Fiscal Unit – The fiscal unit is responsible for the accounting of expenditures and preparation of financial statements for the SDWSRF program. The procedures followed are contained in the State’s uniform accounting system (CALSTARS) used by many state agencies in California government (including DHS).

☐ Solicitation of Applications (Pre-Applications)

Approximately 8,000 pre-applications were sent out in a mass mailing in May of 1997 to solicit interest from PWSs for the 1997 Federal Capitalization Grant. DHS subsequently compiled a PPL of interested parties and based the priority ranking of these on public health criteria. In September of 1998, DHS sent out invitations to 161 systems inviting them to submit a full project application because they were included on DHS’ fundable portion of the PPL. In November of 1998, DHS sent out an additional 69 invitations.

☐ Development of comprehensive list of projects (PPL)

The PPL was comprised of approximately 3,400 projects that were submitted by approximately 1600 water systems.

☐ Evaluation of PWSs for technical, financial, and managerial capacity (TMF).

USEPA granted approval of DHS’ TMF capacity development workplan on July1, 1999.

During the time period of July 1, 1998 to June 30, 1999 there were a total of 337 water supply permit actions by DHS or the LPAs reported in DHS’ data tracking system. This includes 133 amended permits and 204 other permit actions. The majority of these permit actions did not trigger an evaluation of the TMF Capacity of the water system, which is limited to new systems and changes in ownership, pursuant to state law found in Health and Safety Code Section 116540(a).

The data tracking system does not track the number of TMF Capacity Evaluations completed. However, it is estimated that approximately 30 evaluations of TMF capacity were performed statewide during this time period. Approximately 20 of these evaluations were triggered by a “change of ownership” permit action.

Most of these permits contained provisions related to TMF Capacity Criteria. The most common of these permit provisions is the preparation and submittal of a detailed System Operations Plan within a specified time period. DHS is developing guidance on the preparation of an Operations Plan, which should help water systems meet this requirement.

During this time period, there were cases reported in which potential new PWSs chose to connect to an existing PWS to avoid the expense and requirements (especially the TMF requirements) of becoming a new PWS. There is no data tracking system for these cases, but a reasonable estimate of such cases statewide during this time period would be approximately 40 to 50.

☐ Development of IUPs.

DHS prepared an IUP for both the FFY 1997 and FFY 1998 Capitalization Grants. These IUPs set forth DHS' goals and priorities. A PPL was established that ranked PWSs into categories based on public health issues, compliance with the SDWA, and per household affordability. The PPL was included in the IUP. Projects that rank high on the PPL are the first to be offered loans based on available funding.

☐ Conduct of public hearings for PPLs and IUPs

In early 1988, DHS held a series of public hearings to receive comments pertaining to the IUP and PPL that were intended to be used for both the 1997 and 1998 federal funding allocations. However, since the Legislature only appropriated State matching funds for the 1997 allocation, application to the USEPA for the 1998 allocation was delayed. Since public hearings had already been held on the 1998 IUP, no additional hearings were held.

☐ Creation/meeting of stakeholder committees

The SDWSRF program has stakeholder committees in each of the set-aside programs. The SRF Interest Group is comprised of water utility associations, PWSs, nonprofit groups, water utility consultants, funding agencies and others.

☐ Preparation of capitalization grant application

The 1997 federal Capitalization Grant was prepared by DHS staff and executed by USEPA in September 1998. The 1998 Federal Capitalization Grant was prepared during SFY 1998/99 but was not signed and executed until the following SFY.

☐ Development of Accounting Management Reports

Appendix B details the accounting management reports that will be used to track expenses to the SDWSRF Program.

☐ Completion of SDWSRF program audits

No audit was performed on the SDWSRF Program as of June 30, 1999. DHS is arranging for its annual audit to be performed by the State Bureau of Audits commencing in January 2000 with the final audit report due by April 30, 2000.

☐ Regulations

The authority to implement regulations was based on enabling legislation for the SDWSRF Program. This was accomplished with the passage of Senate Bill 1307 (Chapter 734 – Statutes of 1997) signed by the Governor on October 6, 1997. Emergency Regulations were adopted on March 23, 1999 and became final on August 18, 1999.

☐ Land Acquisition for Source Water Protection

Funding for this program will provide loans to PWSs for the purchase of land or conservation easements. A PWS may only purchase land or a conservation easement from a willing party. The purchase must be for the purposes of protecting the system's source water and ensuring compliance with national drinking water regulations. DHS evaluates all projects using the priority system described in DHS' IUP.

Loans to PWSs for the purchase of land or conservation easements have been budgeted beginning in SFY 2000/01, with the initial amount of funding being set at \$4,000,000 per year. This funding is part of the SDSWRF loan fund and will be tracked separately by its own cost accounting code. This amount reduces the funding available to the SDWSRF infrastructure improvement projects accordingly.

☐ Delegation authority for Compliance with federal regulations and authorities

Federal Endangered Species Act: July 2, 1999 Letter from U.S. Environmental Protection Agency to U.S. Fish and Wildlife Service Designating them (U.S. Fish and Wildlife Service) as Non-Federal Representative for Compliance with Section 7 of the Act.

National Historic Preservation Act: March 1990 "Programmatic Agreement on Historic Preservation for the State Revolving Fund" stipulating the responsibilities of USEPA and State Revolving Fund agencies (including DHS).

☐ Environmental review process

1. Environmental Reviews

- As noted in the Operating Agreement between DHS and USEPA, DHS' Environmental Review Process incorporates the State Environmental Review Process developed by the State Water Resources Control Board for the Clean Water State Revolving Fund Program.
- DHS will conduct a review of the potential environmental impacts on all projects receiving SDWSRF assistance. DHS intends to use the Environmental Review Process, described below, on all SDWSRF equivalency projects. Non-equivalency SDWSRF projects will be subject to a tier-2 CEQA review only.

2. Decision Documentation

- DHS or applicant will prepare one of the following Environmental Documents pursuant to CEQA:
 - a) An Environmental Impact Report

- b) A Negative Declaration or Mitigated Negative Declaration, including the Initial Study supporting the findings
 - Documentation will contain an environmental evaluation of alternatives including the “no project” alternative. Pursuant to CEQA Guidelines, this evaluation is required for an EIR but not for a Negative Declaration. When a Negative Declaration is prepared, the evaluation will either be incorporated into Initial Study or provided as a separate document.
3. Public Notice and Participation
- DHS or applicant will distribute environmental documents for agency and public review pursuant to CEQA and CEQA guidelines.
 - DHS or applicant will provide the following public notices as required by CEQA and CEQA Guidelines:
 - a) Notice of Preparation prior to initiating preparation of an EIR
 - b) Notice of Intent to Adopt a Negative Declaration or Mitigated Negative Declaration
 - c) A Notice of Availability of an EIR
 - A public hearing or meeting will be held for all projects for which an EIR was prepared.
 - If DHS plans to accept an environmental document that was completed more than five years before DHS will be executing a SDWSRF funding contract for the project described in the environmental document, DHS will reevaluate the project’s environmental document. If DHS intends to use the environmental document for a SDWSRF project, a public notice will be issued explaining the results of the reevaluation.
4. Federal Review
- Federal Environmental Statutes and Authorities
 - a) DHS will assure the implementation of applicable federal environmental authorities listed in the Appendix A (federal cross-cutters) of the SDWSRF Program Guidelines.
 - b) DHS will be the USEPA designated non-federal representative for federal Endangered Species Act (ESA) coordination as provided under 50 CFR 402.08.

- i. As a non-federal representative, DHS will coordinate and consult informally with the United States Fish and Wildlife Service (USFWS) and/or the National Marine Fisheries Service (NMFS) in compliance with Section 7 of the ESA.
 - ii. DHS will evaluate the potential for SDWSRF projects to impact (directly or indirectly) federally listed threatened or endangered species and submit its findings to the USFWS and/or NMFS.
 - iii. When DHS, in consultation with the USFWS and/or NMFS, determines that the project may affect federally listed species, it will notify the USEPA of the need to request formal consultation with the USFWS and/or NMFS.
 - iv. The USEPA will participate as lead federal agency in the formal consultation process and will ultimately be responsible for compliance with Section 7 of the ESA for all SDWSRF projects.
 - v. DHS will monitor or assist in monitoring any mitigation measures proposed to avoid or lessen impacts to federally listed species.
- c) Pursuant to a programmatic agreement dated March 1990 between USEPA, the Advisory Council on Historic Preservation, and the National Conference of State Historic Preservation officers concerning compliance with Section 106 of the National Historic Preservation Act (NHPA), USEPA will delegate its responsibility for carrying out the requirements of Section 106 of the NHPA to DHS.
 - i. DHS' Cultural Resources Officer will be authorized to represent the USEPA in correspondence related to Section 106 compliance on SDWSRF projects in California.
 - ii. DHS will notify the USEPA if unresolved disputes occur in DHS' routine consultation with the State Historic Preservation Officer (SHPO).
- Federal Coordination
 - a) DHS will send complete copies of environmental documents directly to agencies responsible for implementation of applicable federal statutes and authorities, including each Designated Agency (DA) identified on USEPA's Environmental Authorities Distribution List.
 - b) DHS will assure that each DA has at least forty-five (45) calendar days for review of EIRs and thirty (30) days for Negative Declarations.
 - c) DHS will assure that the review period for receipt of its comments is at least fifty-one (51) calendar days from the date the EIR was mailed to the DA and at least thirty-six (36) calendar days from the date the Negative Declaration was mailed to

the DA. These times include three days for transit by mail to the DA, plus three days for transit by mail to DHS.

- d) DHS will routinely approve a request from a DA for fifteen (15) day time extensions for the review period, if these requests are received within the thirty (30) or forty-five (45) day review period, or during any extension of the review period.
- e) DHS will refer any time extension request it intends to deny to the USEPA for arbitration.
- f) If no comments or time extension requests are received within the thirty (30) or forty-five (45) day review period, and DHS' own review of the environmental document fails to identify any environmental issues, DHS will proceed with the project.
- Consultation with Environmental Authorities
 - a) DHS will consult with each DA to determine the necessary and appropriate steps to be taken, whenever an environmental issue is:
 - i. Identified by the State's environmental review of a SDWSRF project;
 - ii. Described in the comments of a DA; or
 - iii. Revealed by the project construction process.
 - b) Whenever DHS and a DA (other than USEPA) cannot quickly and easily resolve an issue:
 - i. DHS will request assistance from USEPA; and
 - ii. USEPA will assist in resolving the issue, and determine the mitigation measures or other steps that may be necessary or appropriate for the project in question.
- Mitigation
 - a) DHS or Applicant will adopt a program for reporting on, or monitoring, the changes that have either been required in the project or made a condition of approval to mitigate or avoid significant environmental effects.
 - b) DHS will require applicants to implement the mitigation measures or other changes or alterations that have been determined as necessary or appropriate during the environmental review and federal coordination and consultation

processes. Requirements will be contained in the loan or forgiveness of principal contract or other SDWSRF assistance agreement provision.

- c) DHS will adopt all mitigation measures, as described in the above sections , that fall within its responsibility and jurisdiction.

B. Set-Aside: Capacity Development

Capacity Development is a result related to the building or increasing of the ability of a system to meet the operational and regulatory requirements to maintain a public water system.

Capacity Development Strategy is defined in the federal law as a method to identify PWSs most in need of TMF improvement and factors that encourage of impair capacity development.

The law also requires a state to describe how it will assist PWSs meet primary drinking water regulations, how it will encourage partnerships and assist in the training and certification of operators. A state must establish a baseline to measure improvements and identify persons interested in implementing the capacity development strategy.

□ Overview and Workplan

DHS is in the process of developing a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. The strategy is in draft form and will be presented to the SRF committee and Executive Staff early next fiscal year. DHS will (1) define program goals and objectives, (2) define a set of steps to be taken to achieve each objective, (3) define an overall program implementation plan, and (4) define a program evaluation and improvement plan which will describe how the state will establish a baseline and measure improvement in capacity. Throughout this development process DHS will continue to solicit input from the State's technical advisory committee, and other interested stakeholders.

Funds were used to (1) continue the development of a capacity development strategy, (2) develop policies and procedures for implementing capacity requirements, and (3) continue to develop a capacity development data base system with which to track the results of the strategy and its implementation.

□ Program Documents

The TMF Capacity Development Program has developed the following program documents used to guide staff towards consistent implementation of the program:

- Technical, Managerial and Financial Capacity Criteria for Community Water Systems, dated February 9, 1999.
- Technical, Managerial and Financial Capacity Criteria for Non Community Water Systems, Dated February 9, 1999.

- TMF Capacity Training Manual dated September 1998.
- TMF Capacity Assessment Forms for Community Water System SDWSRF Applicants, dated March 11, 1999.
- TMF Capacity Assessment Forms for Non Community Water System SDWSRF Applicants, dated March 11, 1999.
- TMF Capacity Assessment Forms for Change of Ownership of Community Water Systems, dated March 11, 1999.
- TMF Capacity Assessment Forms for Change of Ownership of Non Community Water Systems, dated March 11, 1999.
- TMF Capacity Assessment Forms for New Community Public Water Systems, dated March 11, 1999.
- TMF Capacity Assessment Forms for New Non Community Public Water Systems, dated March 11, 1999.
- The Draft TMF Capacity Development Strategy dated January 10, 2000. This document, when finalized will be used as an overall guide for the program.

☐ Program Procedures

DHS has developed a set of performance criteria needed to determine whether a system has adequate TMF capacity. DHS intends to further revise the criteria based on input received from actual field use by staff.

DHS is in the process of developing policies and procedures for implementing capacity requirements. DHS has developed preliminary TMF capacity self-assessment forms and staff evaluation forms to be used to assess and document a water system's TMF capacity. Preliminary field testing of the forms and procedures has been conducted and documents have been revised. As an ongoing task, DHS intends to revise the forms and procedures based on input received from actual field use by staff.

As a part of this process, DHS intends to develop a staff TMF capacity guidance manual that will outline all policies and procedures needed by staff in implementing capacity development requirements. All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised and implemented on December 15, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs.

All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised prior to September 1, 1999 and implemented by October 1, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs. The program procedures have been established and are currently being documented in DHS' revised Permit

Policy and Procedures Manual. It is anticipated that this document will be completely revised by July 1, 2000. The TMF Capacity Training Manual dated September 1998 contains a description of the program procedures to be followed by District and LPA staff.

Finally, DHS is in the process of developing a TMF capacity tracking data base. This data base will enable the State to (1) track information on the TMF capacity status of PWSs, (2) identify and track areas where water systems need to develop capacity, and (3) identify and track areas where water systems need technical assistance. DHS intends to develop the initial data base program and conduct field tests to determine needed data base revisions.

This set-aside has a total of 3 authorized positions. One is full time and two are part time. As of June 30, 1999, none of the positions was filled. The USEPA appropriation authority is \$302,730 but the State Budget Act rounded this amount to \$304,000. Total expenditures for the year amounted to \$4,157. The expenditures were for general expense items. The unspent balance will be rolled into the loan corpus.

☐ Performance Status Report

USEPA granted approval of DHS' TMF capacity workplan on July 1, 1999.

The staff of DHS focused efforts on the following areas related to these set-aside programs:

- The development of the State of California's TMF Capacity Criteria.

Effective January 1, 1998, State of California Law required that TMF Capacity requirements be met by all new PWSs as well as water systems which are undergoing a change of ownership. This requirement necessitated that DHS establish the TMF criteria and begin utilizing these criteria in the approval process for these water systems.

The TMF criteria were developed by a Capacity Development Work Team comprised of members of State and County regulatory personnel that meet six (6) times per year. Input was obtained from a Technical Advisory Committee comprised of affected stakeholders, regulatory personnel and industry support groups, which met 3 times during the fiscal year.

- Development of an Overall TMF Capacity Development Strategy. A major effort of the Work team was directed towards developing an overall, comprehensive strategy to effectively utilize the Set-Aside programs. The first draft of this Strategy was completed in December 1998. The Strategy continues to be developed in conjunction with the Work Team.
- Staff Training: A series of four workshops were held in September, 1998 to train State and County regulatory personnel in TMF Capacity as it relates to all PWSs. An emphasis of this training was TMF Capacity requirements for systems which are pursuing funding under the SDWSRF. DHS staff developed the workshops.

C. Set-Aside: Small Systems Technical Assistance

❑ Overview and Workplan

The majority of California's more than 8,500 water systems fall into this category (7,600 small water systems) and DHS is utilizing the entire portion of the Capitalization Grant allowed for this activity. The funds are used to provide additional in-house technical staff and to contract with local primacy agencies and outside contractors to provide technical services to small systems. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the systems; and (4) establishing or improving the financial, technical, and managerial capability of the systems. This program is directed at those systems serving a population of 10,000 or less, with much of the emphasis given to community water systems serving less than 200 service connections.

DHS is in the process of developing the State's overall small water system technical assistance program. DHS intends to develop procedures for providing technical assistance to small water systems through use of DHS staff, LPA staff and third party contractors. As a part of this process, DHS intends to develop a staff technical assistance manual that will include procedures for providing technical assistance, descriptions of available third party assistance, and guidance document handouts.

Funds were used to (1) continue the development of the state's overall small water system technical assistance program and (2) provide direct assistance to small water systems to enable them to qualify and obtain SDWSRF funding. This includes:

- Assistance in preparation of the SDWSRF application, including submittal of required environmental documentation and preliminary engineering report(s).
- Assistance in demonstrating required TMF capacity, including submittal of required capacity documentation and development of source capacity assessments, technical evaluations, operations plans, emergency plans and budget projections.

Because DHS was unable to enter into contracts with LPAs or third party contractors until late in the fiscal year, DHS provided direct technical assistance to small water systems through use of DHS staff.

This set-aside has a total of 13 authorized positions. As of June 30, 1999, 4 of these positions were filled. All are full time. Training for the filled positions was for successful CEQA compliance. The USEPA appropriation authority was \$1,513,652. This represents a 2% set-aside of the federal capitalization grant of \$75,682,600. The State of California authority rounded this amount to \$1,514,000. Expenditures against this set-aside totaled \$68,245 for the year. The remaining balance will be rolled into the loan corpus.

Contracts began in June with 33 local primacy agencies (LPAs) for complete drinking water source assessments for all active public drinking water sources used by PWSs under the regulatory jurisdiction of the LPA. The contracts are from 6/1/99 through 12/31/02 and total \$1,953,900. The amount encumbered for SFY 1998/99 totals \$6,600 or \$200 per LPA. Future contracts with the LPAs are anticipated next fiscal year to provide support to water systems seeking participation in the SRF Program. Future contracts will provide support to small water systems seeking participation in the SRF Program.

Small systems have some of the most pressing needs in our state. The programs designed by these assistance providers are expected to provide small water systems with the ability to improve their technical, financial, and managerial capabilities.

☐ Program Documents

DHS is in the process of preparing staff guidance and implementation documents for this program. These documents will define the role of DHS and LPA staff as well as third party contractors. The Draft Capacity Development Strategy dated January 10, 2000 describes how the Technical Assistance program fits into the TMF Capacity Development program.

☐ Program Procedures

DHS is in the process of preparing staff guidance and implementation documents for this program. These documents will define the role of Department and LPA staff as well as third party contractors.

Currently, targeted Technical Assistance is provided by Headquarters staff to systems which may be pursuing SRF funding.

☐ Performance Status Report

During this time period, DHS focused on developing a program designed to use both DHS staff and Third Party Contractors to provide effective technical assistance to Small Water Systems (SWS) utilizing the SRF Set-aside funds. This effort focused on the following areas during this period:

- Continued work of the Capacity Development Work Team which consists of staff of DHS and Local Primacy Agencies. The primary focus of this Work Team has been the development of the Capacity Development Strategy. However, related to this, the Work Team also worked on evaluating and prioritizing Technical Assistance needs for both Capacity Development and general compliance issues.
- Development of a Comprehensive Capacity Development Strategy to be used, in part, as a basis for evaluating and prioritizing Technical Assistance needs for Small Water Systems. The first draft of this Strategy was completed in December 1998. The Draft Strategy continues to be developed. The Work Team had formal meetings every two months during this time period. In addition, telephone conference calls were used in lieu of meetings on occasion.

- Identifying and evaluating available Technical Assistance resources. The Work Team developed lists of available resources and the possible roles of these resources in the Technical Assistance Program.
- Meetings were held with the TAC to obtain input on both Capacity Development and Technical Assistance needs from representatives of a wide variety of PWSs and support industry. There were three meetings held with this Technical Advisory Committee during this time period.

D. Set-Aside: Source Water Assessment Program (SWAP)

☐ Overview

The funding for this program is being used to develop a SWAP program to (1) delineate the boundaries of protection areas for drinking water sources, and (2) identify possible contaminating activities within the delineated areas in order to assess the vulnerability of the water source to contamination. In California, the SWAP is incorporated into the DWSAP Program.

The first step in this process was the development of the DWSAP program. DHS submitted the final DWSAP program to USEPA on January 19, 1999, following a 17-month process in which DHS collected existing information, consulted with the stakeholder committees, developed 5 draft versions (beginning in August 1997), and received public comment. The document outlined a plan to accomplish assessments of the State's source waters and included a schedule and priorities.

USEPA endorsed DHS' DWSAP Program on April 26, 1999 and formal approval was given on November 5, 1999.

This set-aside has a total of 14 authorized positions. As of June 30, 1999, this set aside paid for the salaries and associated expenses of 2 full time positions. The appropriation authority was for \$3,562,000 but total expenditures for the first year amounted to \$237,754. The unspent balance will be rolled forward to the next year. As part of this effort, DHS has contracted with UC Davis for \$499,000 to develop geographic information system applications and decision support system tools in order to assist in identifying different source water threats. This contract will take effect next fiscal year.

The DWSAP Program addresses both groundwater and surface water sources. For groundwater sources, DHS, in cooperation with the USEPA, has begun implementation of a wellhead protection program. For surface water sources, DHS' experience with other activities, such as watershed sanitary surveys, will be helpful in completing the surface water portion of the DWSAP.

Low interest loans will be offered to PWSs beginning in SFY 2000/01 for source water protection. The budget for the first year will be \$4,000,000. It will be structured as a sub-account of the SDWSRF loan fund.

❑ Work Plan

The work plan goals of the DWSAP Program were developed in consultation with advisory committees. These goals are to:

- Improve drinking water quality and support effective management of water resources of the State of California.
- Inform communities and drinking water systems of contaminants and possible contaminating activities that may affect drinking water quality or the ability to permit new drinking water sources.
- Encourage a proactive approach to protecting drinking water sources and enable protection activities by communities and drinking water systems.
- Refine, focus and target the monitoring requirements for drinking water sources.
- Focus cleanup and pollution prevention efforts on serious threats to surface and ground water sources of drinking water.
- Meet requirements anticipated in the federal regulations to be adopted within the next several years, such as Groundwater Rule, Enhanced Surface Water Treatment Rule, Chemical Monitoring Reform, and Alternative Monitoring Guidance.

The DWSAP Program utilizes existing data and other types of completed work related to source water assessments wherever possible.

A. The following activities identified in the Work Plan have been undertaken or completed:

1. DWSAP program document completion/approval (DWSAP Taskforce)
 - a. Completed final comment draft of DWSAP by August 1, 1998.
 - b. Distributed final comment draft of DWSAP in August for comments and published notice in the California Regulatory Notice Register.
 - c. Incorporated comments from final public review period held August through September 1998 and finalized DWSAP.
 - d. Submitted final draft of DWSAP to USEPA regional office in January 1999 for early review with a request for an endorsement letter.
2. Data tool development: Coordinated with UC Davis to ensure that the tools related for data accessibility and conducting the assessments were available as scheduled (DWSAP Taskforce).

3. Field testing: Via demonstration projects and by working with field staff on a few selected water systems, field tested DWSAP approach (DWSAP Taskforce). Maintained a log of field test sites and pertinent information related to the tests.
4. Public participation: Met with Technical and Public Policy Advisory Committees in October 1998 to discuss various issues related to implementation, comments received on final public review draft, DWSAP field test results, and any other pertinent matters (DWSAP Taskforce).
5. DWSAP training (DWSAP Taskforce)
 - a. Made preliminary arrangements for training to be held in November and December 1999 for state field staff and local primacy agencies.
 - b. Provided follow-up technical support, as needed, until those staff conducting assessments were adequately trained.
6. Began implementing DWSAP Program
 - a. Provided technical support to staff conducting assessments.
 - b. Worked with American Water Works Association (AWWA) Source Water Committee on revision of AWWA Watershed Sanitary Survey Manual (DWSAP Taskforce).
 - c. In April 1999, began to incorporate DWSAP assessment work into regular drinking water systems oversight responsibilities, such as site visits and sanitary surveys (state field staff and local primacy agencies).
 - d. On an ongoing basis, reviewed implementation issues as they arose and provided guidance, developing a "Q & A" document to support consistent and appropriate DWSAP implementation (DWSAP Taskforce).
 - e. In June 1999, evaluated the progress of SWAP implementation in terms of the number of sources assessed within the context of those projected for SFY 1998/99, and those needing to be completed, comprehensiveness of assessments, and issues that have arisen. Determined whether any changes were needed to be made to ensure that all assessments were completed on schedule (DWSAP Taskforce).

☐ Performance Status Report

The report for the California DWSAP Program is as follows:

1. DWSAP Completion and Approval
 - a. The final comment draft was completed by DHS in August 1998 and distributed for review and comment. The draft was also posted on DHS' website to encourage widespread dissemination of the document.
 - b. A public written comment period was held in August and September 1998.
 - c. Comments on the final review draft were received from approximately twenty (20) agencies, organizations and individuals. Comments were incorporated into the final DWSAP program.
 - d. The final DWSAP Program was submitted to USEPA on January 19, 1999.

- e. Minor modifications were made to the DWSAP Program to address comments from USEPA. An endorsement of the program was received from USEPA on April 26, 1999.
2. Data Tool Development
DHS developed an Inter-Agency Agreement with UC Davis Information Center for the Environment.
3. Field Testing
DHS staff conducted field trials on 10 water systems in December 1998-February 1999. Results of the field trials were summarized and the experience gained from the trials is being incorporated into staff guidance.
4. Public Participation
A meeting of the Policy Advisory Committee (PAC) was held in October 1998. A meeting of the Technical Advisory Committee (TAC) was held in November 1998. At these meetings the committees discussed comments on the August 1998 DWSAP Program document draft. Suggestions for the final program were made. Both committees expressed the desire to meet annually for updates on the program.
5. Implement DWSAP Program
Implementation was delayed due to delays in executing the UCD agreement. However, the following activities occurred during the fiscal year:
 - Distributed contracts to Local Primacy Agency (LPA) counties.
 - Developed guidance on DHS Well Data Sheet, which is a major component of assessments and is part of the water system regulatory program.
 - Developed prototype of DWSAP electronic forms.
 - Met regularly with Data Advisory Committee and other state agencies to coordinate sharing of data.
 - Held monthly meetings of the DWSAP Taskforce to discuss implementation issues. Decisions from these meetings were distributed to DHS district field offices, and will be incorporated in guidance.
 - A total of 25 DWSAP assessments were completed in SFY 1998/99. A summary of the assessments are shown below:

System Type	# Source Assessments Completed SFY- 1998/99
Community Water Systems >10,000	6
Community Water Systems 1,000 to 10,000 s.c.	15
Community Water Systems 200 to 1,000 s.c.	3
Community Water Systems <200 s.c.	1
Non-Transient NonCommunity Water Systems	0
Transient NonCommunity Water Systems	0
Total	25

Upcoming implementation activities include:

- DHS district field offices and LPA counties will develop DWSAP workplans by February 1999.
- A survey will be sent to water systems over 1,000 service connections to determine water system interest in conducting assessments. The survey will be sent in October 1999 and is due back to DHS district field offices by December 31, 1999. The information from the surveys will be incorporated into district DWSAP workplans.
- All PWSs will be notified of the DWSWAP program in August 1999. DHS will also inform water systems that the DWSWAP assessments are a required part of all permits for new water sources.

V. FINANCIAL SUMMARY

The following discussion provides additional details on the financial management activities in the SDWSRF.

A. Status of Loans

The SDWSRF closed no loans as of June 30, 1999. Appendix A shows the status of all SDRSRF loans to date. Future reports will include the following information: loan amount, interest rate, term, cumulative disbursements, and schedule of principal and interest payments. DHS will present all loan activity by SFY.

B. Loan Disbursements/Cash Draw Proportionality

DHS disbursed \$0 in loans for this reporting period. Appendix C will list each disbursement, each loan-related federal Automated ClearingHouse (ACH) cash draw, and the cumulative federal/state proportionality ratio resulting from cash draw activities in the future. DHS will use the rolling average method to determine federal/state proportionality as defined in the Guide to Using USEPA's Automated Clearing House for the Drinking Water State Revolving Fund Program (EPA-832-B98-003).

C. Set-Aside Disbursements

DHS has disbursed \$791,562.11 in set-aside funds since the program's inception. Appendix C lists each set-aside related cash draw and disbursement by type of set-aside and by fiscal year.

D. Annual Repayment/Aging of Accounts

As of June 30, 1999, no loans were closed under the Drinking Water State Revolving Fund. DHS expects to close the first loan in early 2000 and expects to begin disbursing funds during the same time period. Once funds are disbursed to an entity, the State will begin invoicing for interest accrued during the construction period. Invoices will be sent on a semiannual basis. Invoices will go out on June 1 with payments due on July 1 and December 1, due on January 1. Invoicing for principal and interest payments will begin once a project is completed. Principal and interest payments will also be billed on the same aforementioned time schedule.

E. Loan Portfolio Analysis

No loans were funded as of June 30, 1999. The State of California will conduct an annual review of its loan portfolio and summarize findings in a Portfolio Tracking Report to be included in Appendix E. DHS will identify loans that are potentially weak and track them closely to ensure that conditions are not deteriorating. As no loans were

closed, DHS currently has no loan portfolio. It is DHS' intent, however, to assign a credit quality rating to each of DHS' closed loans.

F. Investments

The SDWSRF program had no investments at the end of SFY 1998/99. The State Treasurer manages these funds in compliance with state investment practices. The State of California prohibits investment earnings for its Surplus Money Investment Fund (SMIF) on General Fund (GF) money. The state match of 20% under this Assistance Agreement comes from GF money. The federal match of 80% is not deposited into the State Treasurer's account under this Assistance Agreement. Therefore, the State Controller's Office does not allow SMIF earnings for the SDWSRF Program.

When loans, however, are repaid by PWSs to the SDWSRF fund, the federal portion of the repayment becomes state money. That portion of the loan repayment that originally came from the federal match is not GF money. DHS plans to explore the possibility with the Pooled Money Investment Board of the State Controller's Office or the State Legislature to allow SMIF interest on the federal portion.

G. Financial Statements

SDWSRF financial statements are attached to this report as Appendix D. The SDWSRF Program will have its financial statements audited during SFY 1999/00. The audit report will be included in next year's Annual Report to USEPA. DHS plans to use the audited data from the financial reports of DHS' program in performance assessments of the SDWSRF.

VI. COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS

The State of California has complied with the conditions of the SDWSRF Operating Agreement. DHS has met and continues to be in compliance with the following conditions as described in the Operating Agreement:

- ☐ Establish state instrumentality and authority
- ☐ Comply with applicable state laws and procedures
- ☐ Review technical, financial, and managerial capacity of assistance recipients
- ☐ Establish SDWSRF loan account, set-aside account, and SDWSRF administration account
- ☐ Deposit all funds in appropriate accounts
- ☐ Follow state accounting and auditing procedures
- ☐ Require SDWSRF loan recipient accounting and auditing procedures
- ☐ Submit IUP and use all funds in accordance with the plan
- ☐ Comply with enforceable requirements of the Act
- ☐ Establish capacity development authority
- ☐ Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- ☐ Develop and submit project priority ranking system

DHS has met the following conditions as described more fully below:

- ☐ Take payments based on payment schedule

DHS has received payments from USEPA based on the schedule included in the grant awards made for SFY 1998/99. Appendix C includes a schedule of grant payments received.

- ☐ Deposit state matching funds

The State of California appropriated \$15,136,520 (rounded to \$15,137,000) as state match for the federal FY 1997 Capitalization Grant. The state deposited the entire amount into the SDWSRF account on June 11, 1999 to satisfy the 20 percent match requirement for federal FY 1997 funds.

☐ Submit Annual Report and Annual Audit

The submission of this document will fulfill the State Of California's responsibility to submit an Annual Report.

The California State Bureau of Audits will conduct an annual audit of the SDWSRF Program. Each audit will address all funding activity from the loan account, the set-aside accounts and the administration account. Section 1453(k)(1)(a) monies set-aside for DHS' water protection land acquisition loans will be presented as separate financial statements and addressed in the SDWSRF audit report. This report will be available by April 30, 2000 and will also address compliance with internal controls. The report will be included as an exhibit in next year's Annual Report.

☐ Assure that borrowers have dedicated source of repayment

DHS' contractor, the California Department of Water Resources, conducts a credit review evaluation for all PWSs. This evaluation determines whether or not an applicant has the ability to repay a loan. For all PWSs, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.

☐ Use funds in timely and expeditious manner

The State of California had not committed any funds to loans as of June 30, 1999. The program was gearing up by hiring the necessary staff to carry out the responsibilities of the program and the state match for FY 97 federal money was not transferred into the fund by the State Controller's Office until June 11, 1999.

☐ Ensure recipient compliance with applicable federal cross-cutting authorities

The State of California had no outstanding loans as of June 30, 1999.

☐ Conduct environmental reviews

A total of six PWSs had environmental reviews conducted and received an Environmental Clearance Report during SFY 1998/99. See the listing on the next page.

Environmental Clearances for SFY 1998/99

<u>Applicant</u>	<u>SDWSRF Number</u>
Solano Irrigation District	4810010-01
River Pines Public Utility District	0310006-01
Terra Bella Irrigation District	5410038-02
Roosevelt Water Service	0800510-01
Big Rock Community Services District	0800532-02
Roosevelt Water Service	0800510-02

- ☐ Implement capacity development strategy.

USEPA granted approval of DHS' capacity development workplan on July 1, 1999.

APPENDIX A

PROJECT INFORMATION/LOAN STATUS

Status of Loans

As of June 30, 1999, no loans were closed under the Safe Drinking Water State Revolving Fund program as the program was in its start-up phase. The first round of applications for funding was due back to the State on April 1, 1999 with review and analysis to begin after that.

APPENDIX B

ACCOUNTING & MANAGEMENT REPORTS

APPENDIX C

REPORT ON CASH DRAWS, PAYMENTS,
AND BINDING COMMITMENTS

**MULTIPERIOD LOAN FUND CASH DRAW PROPORTIONALITY
AS OF 6/30/99 FOR THE 1997 CAPITALIZATION GRANT**

	(A)	(B)	(C)	(D)	Fund Account			Federal Portion	State Portion
Action	Cap Grant	Set-Asides	Adjusted Cap Grant	State Match (A X 20%)	(E)* Federal (budget adj.)	(F) State (20% match)	(G) Total (budget act)	of Cash Draws (E/G)	of Cash Draws (F/G)
Period 1 FFY97									
Beginning 7/98									
Grant Award	75,682,600	8,407,000	67,275,600	15,136,520	63,285,480	15,136,520	78,422,000	80.7%	19.3%
Cash Draws					0	0	0		
Ending Balance 6/99					63,285,480	15,136,520	78,422,000		

* Columns C & E differ by \$3,990,120, which represents the SWAP reduction for years 2 and 3.

**SET-ASIDE DISBURSEMENTS & CASH DRAW FROM USEPA
AS OF 6/30/99 FOR THE 1997 CAPITALIZATION GRANT**

DISBURSEMENTS		CASH DRAW	
Administrative Account	481,406	Administrative Account	0
Water System Reliability Account	4,157	Water System Reliability Account	0
Source Protection Account	237,754	Source Protection Account	0
Small System Technical Assistance Acct.	68,245	Small System Technical Assistance Acct.	0
Total Disbursements	<u>791,562</u>	Total Cash Draws	<u>0</u>

**GRANT PAYMENTS RECEIVED FROM USEPA
FOR FFY 1997 CAPITALIZATION GRANT**

DATE	PAYMENT AMOUNT
AUGUST 1998	12,300,000
OCTOBER 1998	10,000,000
JANUARY 1999	10,000,000
APRIL 1999	10,000,000
JULY 1999	33,382,600
TOTAL PAYMENTS	<u>75,682,600</u>

NO BINDING COMMITMENTS WERE MADE AS OF JUNE 30, 1999

APPENDIX D

AUDIT REPORTS (INCLUDING FINANCIAL STATEMENTS)

Audit Report

The California State Bureau of Audits will conduct an annual audit of the SDWSRF Program. Each audit will address all funding activity from the loan account, the set-aside account and the administration account. Section 1453(k)(1)(a) monies set-aside for source water protection land acquisition loans will be presented as separate financial statements and addressed in the SDWSRF audit report. This report will be available by the spring of 2000 and will also address compliance with internal controls. The report will be included as an exhibit in next year's Annual Report.

Financial Statements

The Financial Statements are appended to this page.

APPENDIX E

ANNUAL REPORTS ON CREDIT
CONDITIONS OF BORROWERS

Loan Portfolio Tracking and Credit Condition of Borrowers

No loans were funded as of June 30, 1999. The State of California will conduct an annual review of its loan portfolio and summarize findings in a Portfolio Tracking Report. DHS will identify loans that are potentially weak and track them closely to ensure that conditions are not deteriorating. As no loans were closed, DHS currently has no loan portfolio. It is DHS' intent, however, to assign a credit quality rating to each of DHS' closed loans.

APPENDIX F

PUBLIC WATER SYSTEM BY-PASS PROJECTS